

# Cash Advance

Public Law 104-193 allows state agencies the option of offering advance payments to CACFP sponsors. A cash advance is a payment made to a sponsor before the reimbursement is received to improve cash flow. Advances are made on the basis of an estimated monthly reimbursement; and a sponsor may choose to receive a full advance, a partial advance, or no advance (Code of Federal Regulations, Section 226.6[b][10]).

Please note that advance funds are *not* start-up funds. A cash advance is financial assistance made available to a sponsor for program costs before the month in which such costs will be incurred. Advance funds must be identified within the agency's accounting system as advance funds and noted as "accounts payable". The advance must be paid back to CDE when an agency terminates the Agreement to Participate, chooses to discontinue the advance, or on demand by USDA or CDE.

The state of California currently offers cash advances calculated on estimated meal reimbursement for child and adult care centers and on estimated administrative reimbursement for family day care homes.

A sponsor may request a cash advance during the initial application to participate in the CACFP or during the renewal process.

When NSD approves the application or renewal, an initial cash advance will be calculated on the basis of the sponsor's budget and payment issued. Thereafter, the sponsor's cash advance will be adjusted on the basis of the sponsor's on actual reimbursement.

## **Meal Advance (Child and Adult Care Centers)**

A meal cash advance is calculated using the current federal reimbursement of “rates times meals” (including cash-in-lieu). The state meal reimbursement is not included in this advance. The advance is calculated on the basis of the number of meals served over a two-month period. This calculated advance is disbursed by CNFS in monthly increments.

For specifics related to sponsor disbursement of advance funds, please consult the administrative manual for child and adult day care centers or your field consultant.

### **Administrative Advance (Family Day Care Home Sponsors)**

An administrative cash advance is calculated on the basis of the estimated administrative reimbursement, “rates times homes”. An administrative cash advance can only be used for CACFP administrative expenditures and may be deposited in an interest-bearing account. The interest earned on advance funds is income to the program and must be spent for allowable administrative costs. In addition, the earned interest must be clearly identified in the sponsor’s accounting system.

### **How the Cash Advance System Works**

The CACFP payment system adjusts cash advances on the basis of actual meal or administrative reimbursement. The three-month period before the advance adjustment is used to determine the average reimbursement for the period. The average reimbursement is multiplied by two to calculate the advance amount. The calculated advance amount is compared to the previous advance to determine if the sponsor’s cash advance will be adjusted downward or upward or remain the same. Overpayments (downward adjustments) are deducted from the next available claims for reimbursement. Overpayment adjustments may cause a payment reduction of 50 percent to 100 percent depending upon the amounts of the overpayment and reimbursement. If the sponsor terminates from the

CACFP, the advance is offset from any outstanding claim reimbursements at 100 percent and any remaining balance is invoiced.

### **Zero Claim**

To prevent miscalculation of cash advance, active sponsors that receive a cash advance must submit a zero claim for each month of non participation. A zero claim will allow the cash advance payment system to use a varied method of calculating any cash advance adjustment. If a sponsor does not submit a zero claim, its cash advance calculation will be severely affected.

### **Cash Advance Cancellation**

A sponsor may request to cancel its cash advance at any time. This request must be in the form of a letter stating that the cash advance is no longer desired. This letter should be addressed to the Nutrition Services Division, Resource and Information Management Unit (RIM), and it should state whether the sponsor wishes to have the outstanding cash advance recovered incrementally or fully from future reimbursements.

If a sponsor is terminated or cancels participation in the CACFP, 100 percent of all reimbursements will be withheld to offset any outstanding cash advance. If a balance remains after all claims have cleared, an invoice will be generated for the outstanding amount.